



Arizona Life & Disability Insurance Guaranty Fund
Arizona Department of Insurance and Financial Institutions

DOUGLAS A. DUCEY
Governor

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EVAN G. DANIELS
Director

MINUTES OF THE ANNUAL MEETING AND EXECUTIVE SESSION
OF THE BOARD OF DIRECTORS OF THE
ARIZONA LIFE AND DISABILITY INSURANCE GUARANTY FUND
NOVEMBER 18, 2020

Pursuant to a Public Notice dated November 12, 2020, the Annual Meeting of the Board of Directors of the Arizona Life and Disability Insurance Guaranty Fund (“ALDIGF”) was convened on November 18, 2020, at 10:01 a.m. in a virtual video conference format using Google Meet. The meeting was called to order by Tod D. Lashway, Chair of the Board, who determined that a quorum was present.

Attending the meeting via video conference were the following members of the Board of Directors:

Tod D. Lashway, CLU, ChFC, LUTCF, CLTC, RICP	Chair
Mark A. Haydukovich, ChFC, CLU, CPA, FLMI, CFA	Vice Chair
John R. Mathews, Esq., CPA	Secretary/Treasurer
Elizabeth A. (Betsy) Heisler	Director
Michael Hickey, Esq	Director
Gerrie Marks, Esq.	Director
Randi F. Reichel, Esq.	Director
Robert C. Corn, Esq.	Director
John. J. (Jay) Sheehy III	Director

Also present at the meeting were:

Evan G. Daniels	AZ DIFI Director
Lynette Evans	Assistant AZ Attorney General
Kurt Regner	DIFI Financial Affairs Division
Liane Kido	DIFI Deputy Receiver
Tom O'Malley	Wells Fargo Bank
Marie Souza	ALDIGF Controller
Christine Cohen	ALDIGF Claims Manager
Lori D. Nestor	ALDIGF Executive Director

The following matters were discussed, considered and decided at the meeting:

Item #1. Announcement Concerning ALDIGF's Conflict of Interest Policy and Anti-Trust Compliance Policy.

Chairman Tod D. Lashway announced that the meeting would be conducted in accordance with the Fund's Conflict of Interest Policy and Anti-Trust Compliance Policy.

Item #2. Approval of Previous Minutes

Upon a motion made by Director Gerrie Marks, and seconded by Director Randi Reichel, the minutes of the Meeting of the Board of Directors held May 12, 2020 were unanimously approved as previously circulated.

Item #3. Introductory Comments by DIFI Director Evan G. Daniels.

ALDIGF Executive Director Lori D. Nestor introduced newly appointed Arizona Department of Insurance and Financial Institutions (DIFI) Director Evan G. Daniels. Director Daniels briefly addressed the Board and provided information regarding his vision for DIFI.

Item #4. Executive Session for the Purpose of Receiving Information and Discussing the Financial Condition of One or More Member Insurers.

Upon a motion made by Director Marks and duly seconded by Director Reichel, the Board voted unanimously to move into Executive Session to receive information concerning the financial condition of certain member insurers. The Executive Session commenced at 10:21 a.m., and no members of the public were present. DIFI Deputy Receiver Liane Kido, Executive Director Nestor, and DIFI Financial Affairs Division (FAD) Assistant Director Kurt Regner reported on the status of two insurers, both of which are member insurers of ALDIGF. Upon a motion made by Director Jay Sheehy and seconded by Director Marks, the Board voted unanimously to adjourn the Executive Session at 10:34 a.m.

Item #5. Report Concerning the Detection and Prevention of Insolvencies.

The Chair recognized Assistant Director Regner, who reported that three FAD professional staff members attended the Society of Financial Examiners (SOFE) Career Development Seminar in July of 2020 in support of their efforts regarding the detection and prevention of insolvencies. He indicated that ALDIGF, in conjunction with the Arizona Property and Casualty Insurance Guaranty Fund (APCIGF), had provided financial assistance to FAD for that continuing education as it had in the past. Mr. Regner advised that the total cost for the virtual seminar this year was \$2,225.00, resulting in a cost to ALDIGF of \$1,112.50. The Chair acknowledged the standing practice of sharing the expenses and thanked FAD for the continuing support of the Board.

Item #6. Election of Officers and Appointment of Standing Committees.

Chairman Lashway opened the floor for the nomination of officers. Director Mathews nominated Tod D. Lashway and Mark A. Haydukovich for re-election to the positions of Chair and Vice Chair of the Board, respectively. The motions were seconded by Director Sheehy and Director Michael Hickey, respectively. Director Hickey nominated John R. Mathews for re-election to the position of Secretary/Treasurer of the Board, and that motion was seconded by Director Robert C. Corn. There were no other nominations, and the Board

unanimously elected the following officers to serve for the ensuing year or until their successors have been elected:

Chair:	Tod D. Lashway
Vice Chair:	Mark A. Haydukovich
Secretary/Treasurer:	John R. Mathews

Committees were then confirmed by Chairman Lashway as follows:

Executive Committee:

Chair:	Tod D. Lashway
Member:	Mark A. Haydukovich
Member:	John R. Mathews
Member:	Robert C. Corn

Audit Committee:

Chair:	John R. Mathews
Member:	Betsy Heisler
Member:	Gerrie Marks

Investment Committee:

Chair:	Robert C. Corn
Member:	Randi F. Reichel
Member:	Michael Hickey
Member:	Jay Sheehy

The Chair also acknowledged that the Board is fortunate to be well represented at the national level, as 2 of its members are now officials on the National Organization of Life & Health Guaranty Associations (NOLHGA) Board of Directors. He congratulated NOLHGA Board Chair Bob Corn and NOLHGA Board Member Gerrie Marks on their new positions with that board.

Item #7. Financial Report.

- B. (Taken out of Agenda Order)** The Chair recognized Executive Director Nestor, who discussed the financial condition of ALDIGF and presented a Balance Sheet, Profit & Loss YTD Comparison and Budget Performance statement as of October 31, 2020. Copies of the financial statements are attached as exhibits.
- A. (Taken out of Agenda Order)** Following Agenda Item 8.A., the Chair recognized Tom O'Malley of Wells Fargo Asset Management who reported regarding the performance of the ALDIGF investment portfolio through October 31, 2020. Mr. O'Malley advised that the portfolio overall has actually outperformed the benchmark, net of fees, with a market value as of that date just shy of \$19M. He reported that credit quality remains very, very high at AA+, but growth had a significant drop in or around March as a result of the dramatic response of the stock market and Federal Reserve to the Coronavirus pandemic. Mr. O'Malley reported that it's expected that recovery will be protracted easily into the middle or third quarter of 2021. He further advised that all factors seem to point toward interest rates remaining low for the foreseeable future.

Item #8. Report of the Executive Director.**A. Claims and activity regarding companies for which ALDIGF has been activated.**

The Chair recognized Executive Director Nestor, who advised that a report had been created to more efficiently provide the Board with an overview of current exposure and activity regarding companies for which ALDIGF has been activated. A copy of that report, titled ALDIGF Board Report, is attached as an exhibit. Executive Director Nestor also advised the board of a process change to pre-fund claims for ALDIGF's obligations in the Life & Health Insurance Company of America (LHICA) and Senior American Insurance Company (SAIC) insolvencies. Such prefunding will be accomplished via deposit into an escrow account

managed by NOLHGA, and regular reconciliation and claim reports will be received and reviewed by ALDIGF management to ensure appropriate oversight.

B. Claims Appeals.

Ms. Nestor reported that there were no claims appeals to report.

C. NOLHGA Assessments.

Executive Director Nestor presented NOLHGA assessment invoices for insolvency administration and MPC activity in the amount of \$56,312.00 for the first quarter of 2020, and the amount of \$66,451.00 for the second quarter of 2020, and asked the Board to ratify her decision to pay the assessments. Upon a motion made by Director Corn and seconded by Director Sheehy, the Board voted unanimously to ratify the decision and payment.

D. Assessment for the ALDIGF Disability Account.

Executive Director Nestor reported that LTC Re has estimated ALDIGF's March 2021 claim funding obligation for Penn Treaty and ANIC to be \$7,454,000. This amount is for Penn Treaty alone, with no additional payment due for ANIC in 2021. Ms. Nestor indicated that the balance in the Disability account as of October 31, 2020 was just over \$3M, and that ALDIGF does have additional current liabilities for 3 other insolvent carriers that will impact that account. It was her recommendation that the Board consider an assessment for the Disability account at this time as a result. Discussion was had regarding the variance between the current estimate, ultimate payment and past funding amounts. Executive Nestor confirmed that ALDIGF's credit balance in its Notional Account was the driving factor behind that variance. That balance apparently has resulted from lower than expected claims experience in 2020, which was largely driven by the impact of rate increases on policy benefits/retention and the COVID-19 pandemic. Upon a motion made by Director Marks and seconded by Secretary/Treasurer Mathews, the Board voted unanimously to assess member insurers \$7.5 million to cover the anticipated 2021 funding obligation for Penn Treaty.

E. Electronic Payment Process for Assessments.

Ms. Nestor reported that ALDIGF has notified all member companies that upcoming and future assessment payments will be collected via Wells Fargo's E-Bill Express and that checks will no longer be accepted. She advised that some members have responded, and ALDIGF will work with any who prefer another electronic method of payment when necessary.

F. Conversion of the ALDIGF Basis of Accounting.

The Executive Director Ms. Nestor advised that since the Board last met, it was decided that ALDIGF will remain on a calendar fiscal year rather than change to a June 30 fiscal year. Following research and petition, both Guaranty Funds were reclassified by the Arizona Auditor General and the General Accounting Office as a Component Unit rather than primary government. Under GASB standards, Component Units may have a different fiscal year end than primary government, and may also have a different basis of accounting. Ms. Nestor reported that the Auditor General was still uncomfortable with ALDIGF remaining on a modified cash basis because of the size of its exposures, however, and conversion to an accrual basis will continue. Consulting CPA firm Eide Bailly will be meeting with ALDIGF's auditing firm to discuss the best approach to any needed actuarial work, and will assist with creating financial statements and templates at year end. Upon recommendation by the Chair, the Finance Committee agreed to assist and support with the conversion.

Item #9. Additional Executive Session, if Necessary, to Confer With Counsel Concerning any Item Included in the Notice and Agenda.

The Chair determined that an additional Executive Session was not necessary.

Item #10. Determination of the Date, Time and Place of Future Board Meetings

The Chair confirmed that a mid-year meeting of the ALDIGF Board will be held on May 11, 2021 at 10:00 a.m. Arizona time, and that the ALDIGF Annual Meeting will take place on November 9, 2021 at 10:00 a.m. The location of both meetings will be determined at a later time.

Item #11. Call to the Public.

The Chair made a call to the Public, to which there was no response.

There being no further business to come before the Board, without objection the meeting was adjourned at 11:07 a.m.

Dated this 23rd day of November, 2020.

Respectfully submitted,

Secretary

Approved:

Chair of the Board